

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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Boo! Halloween arrived early this year for economists. They showed amazing courage throughout a year crowded with higher energy prices, the volatile stock market, and the housing sector retreat, but they were shaken this fall by unfavorable employment data. The U.S. Department of Labor (DOL) announced national nonfarm employment shrank by 4,000 jobs in August 2007. While the DOL euphemistically describes the nonfarm employment situation as “essentially unchanged,” some economists would disagree with their assessment. The August jobs decline was small, but economy watchers were expecting an increase. Global Insight, Inc., for example, projected employment would grow by about 150,000 jobs per month in 2007.

Adding to the shock from the August decline, DOL revisions

show employment gains for June and July were weaker than had been initially reported, suggesting the economy is not on as solid ground as was previously believed. Specifically, DOL lowered its initial estimate for June 2007 by 65,000 jobs and its July 2007 number by 81,000 positions. As a result, employment changes in the last three months all were well below average (see chart).

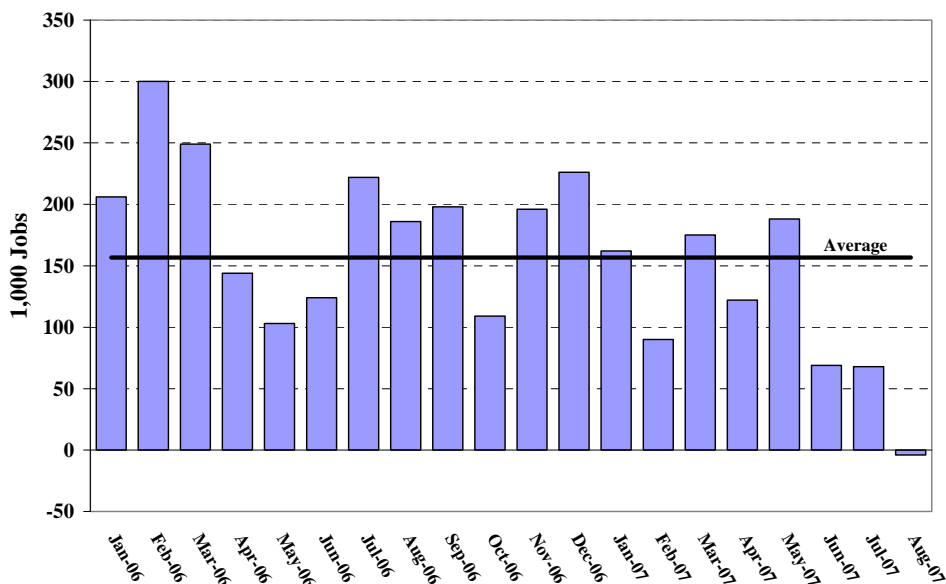
The August job decline included both usual and unusual suspects. Manufacturing cut an additional 46,000 jobs from July to August—its worst drop since July 2003. This is the latest decline in the string of job losses that started in 2001. It is somewhat disconcerting that the traditionally stable government sector is also shedding jobs. This sector experienced a 28,000-job decline in July that was later increased to a 52,000-job loss. It shrank by another 28,000 jobs in

August. These declines appear too large to be blamed on unusual seasonal factors. Local government has retreated by over 100,000 jobs over the last three months.

Some of the losses in the disappointing August 2007 job report can be linked to the reeling housing sector. Not surprisingly, construction payrolls dropped by 22,000 jobs from July to August. Interestingly, the financial sector did not show any job losses in August. However, this stability does not reflect the sector's strength, but, instead, a quirk in the reporting. Namely, the report estimates the financial employment during the middle of August, and does not include the impacts from the financial turbulence which occurred later that month. This weakness is expected to materialize in the September 2007 employment number. Employment in building material stores registered a surprising 13,000 gain in August, which is incongruent with the current housing situation. It too is expected to falter because of the shrinking housing sector.

The recent job report raises concerns as to how well the U.S. economy will perform in the near future. Economists had been counting on continued, steady job growth as an important counterweight to the risks from higher energy prices, the volatile stock market, and the housing sector retreat. Given consumer spending accounts for about two-thirds of output, economists are anxiously awaiting the next job report which is due in early October. Having already had an early scare this fall, they no doubt are hoping the next job report will contain more treat than trick.

Monthly Change in US Nonfarm Employment



Source: US Department of Labor

RETURN SERVICE REQUESTED

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General Fund Update

As of August 31, 2007

Revenue Source	\$ Millions		
	FY08 Executive Estimate³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,392.5	183.7	188.0
Corporate Income Tax	189.1	13.6	9.5
Sales Tax	1,172.2	204.9	214.6
Product Taxes ¹	26.7	6.1	6.1
Miscellaneous	124.8	15.7	18.4
TOTAL GENERAL FUND²	2,905.3	424.0	436.6

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 2007

General Fund revenue continued to pile up in August, coming in \$2.5 million higher than expected for the month. This brings the year-to-date excess to \$12.6 million just two months into the new fiscal year. August's strength was due to a combination of the sales tax, mine license tax, and interest earnings.

Individual income tax revenue was a modest \$0.9 million higher than expected in August. Within the components of the income tax, filing payments were \$2.1 million higher than expected for the month, but this was offset by withholding payments that were \$1.6 million lower than expected. Refunds in August were \$0.3 million lower than expected.

Corporate income tax revenue was \$4.1 million lower than

expected in August, due to a combination of filing payments (down \$2.4 million), multistate collections (down \$0.5 million), and estimated payments (down \$2.5 million). These sources of weakness were partially offset by refunds that came in \$1.3 million lower than expected for August.

Sales tax revenue was \$3.5 million higher than expected in August, after being \$6.2 million higher than expected in July. This strength in the sales tax is quite remarkable, accounting for over three-fourths of the overall General Fund excess for the fiscal year so far. Housing activity in Idaho has been impacted by the national correction, with Idaho residential permits and permit values down 33%

for the first six months of 2007. This has been mitigated by nonresidential permit values that were up 19%, and alteration and repair values that were up 39% for the same period. The net result is that overall construction permit values in Idaho for the first half of 2007 are down only 12.6% from the same period in 2006.

Product taxes were slightly (\$0.1 million) below target in August, while miscellaneous revenue was \$2.2 million higher than expected for the month. Mine license tax receipts were \$1.6 million higher than expected and interest earnings were \$1.4 million above target. These were partially offset by unclaimed property (\$0.5 million low) and insurance premium tax (\$0.2 million low).